Banking Economics
Lecture 1
Course Overview

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Learning Outcomes

- Characterize the role and **importance** of the **banking sector** in **financing** the **economy** and the **benefits** it brings to **economic agents**;
- Recognize the determining **factors** of **banking activity** and its **evolution** in recent decades;
- Recognize the sector's role in promoting **sustainable development** and responding to the **climate change crisis**;
- Solve simple **microeconomic models** to understand banks' **decisions** and **interactions**;
- Characterize the phenomenon of **banking disintermediation**;
- Characterize banking activity, its **profitability**, and the main **risks** it entails;
- Link the characteristics of the sector with the **regulations** imposed on it, both **nationally** and **internationally**.

Syllabus

1. **Banking intermediation**
    1. Definition and specificity of banking intermediation
    2. Trends in Banking
    3. The banking sector and the SDGs
2. **The importance of banking intermediation**
    1. Financial decision-making and the contribution of banking intermediation to economic agents' welfare
    2. The economic justifications for the existence of banks
3. **Theories on the banking company: models based on Industrial Organization theory**
    1. The banking company in perfect competition
    2. The monopolistic banking company
    3. The banking company in an oligopoly environment

Syllabus (cont.)

4. **The interest rate transmission mechanism**
    1. The interest rate transmission mechanism according to the Monti-Klein model
    2. The determination of short-term market interest rates in the Eurozone
    3. The transmission mechanism from market interest rates to bank interest rates in the Eurozone
5. **The phenomenon of banking disintermediation**
    1. Banks' balance sheet structure and profitability indicators
    2. Characterization of the banking disintermediation phenomenon
    3. Forms of banking disintermediation

Syllabus (cont.)

6. **The management of the banking firm and its risks**
    1. Asset-Liability management
    2. Liquidity risk
    3. Credit risk
    4. Interest rate risk
    5. Market risk
    6. Operational risk
    7. Other risks
7. **Regulation and supervision of the banking sector**
    1. Justification and rationale for regulation
    2. The main forms of banking sector regulation

Main bibliography

- Casu, Barbara, Girardone, Claudia and Molyneux, Philip, 2006, *Introduction to Banking*, FT Prentice Hall, pp. 1-48, 160-192, 224-314 and 344-368. [336.71 CAS].
- Matthews, Kent and Thompson, John, *The Economics of Banking*, Third Edition, John Wiley Sons Ltd, pp. 1-53, 87-156, 201-228 and 247-285. [BP336.71 MAT].
- Slides, texts and worksheets for each chapter (originally developed by Professor Fátima Sol Murta and Professor João Ricardo C.; lightly adapted by me).
- I will post the slides and worksheets on UC Student at the start of each chapter.

Assessment Methods

- You can either choose **regular evaluation** or **recourse evaluation**. In the regular evaluation type, there will be **two mandatory** moments of assessment/evaluation: one test (30%) and one exam (70%).
  - The **test** - worth 6 points - will be held on March 17 during class and will last for 45 minutes.
    - Class will be divided into two shifts;
    - If you miss the test or give up during it, you will be excluded from regular evaluation.
  - The **exam** - worth 14 points - will be held on June 20 during the normal examination period and will last for 1 hour 45 minutes.
  - **Final grade** = 0.3 × test grade + 0.7 × exam grade. You will pass this course if you obtain at least 10 points.
  - There is **no minimum required score** on either the test or the exam.

Assessment Methods (cont.)

- For students who choose **recourse evaluation** and/or did not pass under regular evaluation, the grade will be based on a single exam worth 20 points. The exam will be held on July 8 during the recourse examination period. Your score on this exam will be your final grade.
- Grades earned under regular evaluation do not carry over to recourse evaluation.
- There is **no attendance requirement** and no minimum number of classes you must attend. **However, attending class is strongly recommended.**

Instructor Information

- **Course Coordinator:** Professor Fátima Sol Murta (email: fasol@fe.uc.pt)
- João Afonso Saraiva Coelho (email: jasc@fe.uc.pt)
  - **Office Hours:** Mondays from 11:30 to 13:30 in the Visiting Professors' Office